

PROGRAM/SUBJECT: Schools and Roads - Grants to States (Forest Reserve) (CFDA No. 10.665) (Including Public Law 106-393 Provisions)	REF: ADM-1
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II. **PROGRAM PROCEDURES - continued:**

Effective July 1, 2007, State administration of the Forest Reserve Program was transferred from the Office of the State Auditor to the State Department of Administration. With the exception of Title II monies, the U.S. Department of Agriculture (Forest Service) remits to the State Department of Administration the sum of the amounts elected by the counties, and the Department of Administration then distributes the monies to the counties. This distribution is made once a year, in December. In the case of Title II projects that are to be completed in a single year, the total project amount is transferred from the Federal Department of Agriculture to the counties. In the case of a multi-year Title II project, only the amount to be used in one fiscal year will be transferred.

The Secure Rural Schools and Community Self-Determination Act was scheduled to sunset at the end of 2006, but was extended by one year. As such, the final allocation of the “full payment amount” was received by counties in December 2007. After that date, payments revert to the 25% formula. The “25% payments” will be significantly less than the “full payment amounts”. (**Note:** MACo estimates that the total loss to Montana counties and school districts will be over \$8 million. For an estimate of the decrease in revenues for each county, go to <http://maco.cog.mt.us/pages/FFY%2006%20Forest%20Payment%20Comparison.xls> [Column S represents the loss to the county road fund and Column AD represents the loss to the five education levies.]

(**Note to Auditor:** This program is excluded from coverage under OMB Circular A-87 “Cost Principles for States, Local, and Indian Tribal Governments” and OMB Circular A-102 “Grants and Cooperative Agreements with State and Local Governments”.)

III. **COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

COUNTIES ELECTING TO RECEIVE THE “25% PAYMENT”:

1. **Compliance Requirements:**

- If a county elects to continue receiving the 25% payment, all Forest Reserve funds received must be distributed as follows:
 - a. 66 2/3% to county road fund (BARS Fund #2110)
 - b. 33 1/3% to the following countywide school levies, based on the proportion that the mill levy of each fund bears to the total number of mills for all the funds:
 - county equalization for elementary schools provided for in 20-9-331, MCA (BARS Fund #7530)
 - county equalization for high schools provided for in 20-9-333, MCA (BARS Fund #7532)

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III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

COUNTIES ELECTING TO RECEIVE THE “25% PAYMENT” - continued:

1. Compliance Requirements - continued:

- county transportation fund provided for in 20-10-146, MCA (BARS Fund #7820)
 - elementary retirement fund provided for in 20-9-501, MCA (BARS Fund #7840)
 - high school retirement fund provided for in 20-9-501, MCA (BARS Fund #7830)
- (MCA 17-3-213(2), (5) & (6))
- The portion of the Forest Reserve moneys retained by the county government itself is required to be deposited to the county (**Note:** See Compliance Requirement No. 3 below) road fund. The county road fund shall only be used for the construction, repair, and maintenance of all public highways within the boundaries of the county that are outside the corporate limits of any city or town and that are not either state or federal highways. (MCA 7-14-2513)

Suggested Audit Procedures:

- Test the county's distribution of each payment to determine if the money was allocated 66 2/3% to the county road fund and 33 1/3% to the countywide school levied funds listed above. (**Note:** The State Auditor's Office generally distributes Forest Reserve moneys to the counties in two separate payments.)
- As part of the testing of road fund expenditures, determine that road fund expenditures are only made for the construction, repair, and maintenance of public highways within the boundaries of the county that are outside the corporate limits of any city or town and that are not either state or federal highways.
- Test the distribution to the countywide school levied funds noted above to determine if the 33 1/3% was allocated based on the proportion that the mill levy of each fund bears to the total number of mills for all the funds.

2. Compliance Requirement:

- Whenever the total Forest Reserve money available for apportionment to the countywide school funds listed previously is greater than the total requirements of a levy, the excess money and any interest income must be retained in a separate reserve fund, to be reapportioned to those countywide school funds in the following school year. (MCA 17-3-213(6))

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III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

COUNTIES ELECTING TO RECEIVE THE “25% PAYMENT” - continued:

Suggested Audit Procedure:

- For each countywide school fund, determine the total fund levy requirements. If the Forest Reserve funds that were received and were to be apportioned to the fund being tested were in excess of that amount, determine that the excess was transferred to a separate reserve account to be reapportioned in the ensuing school fiscal year to the levies designated in MCA 17-3-213(5)(b).

3. Compliance Requirement:

- If the county has special road districts created under MCA 7-14-2121, the commissioners must distribute a proportionate share of the 66 2/3% distributed for the county road fund under MCA 17-3-213(5), to the special road districts. The allocation to each district is required to be based on the percentage that the total area of the road district bears to the total area of the entire county. (MCA 17-3-213(7))

Suggested Audit Procedures:

- Determine if the county has any special road districts. If one or more special road districts have been established, determine the total area of the entire county and the area of each special road district.
- For each such road district, test to determine whether the 66 2/3% of the funds have been distributed to the special road districts within the county and the county general road fund based on the percentage that the total area of the road district bears to the total area of the entire county.

COUNTIES ELECTING TO RECEIVE THE FULL PAYMENT AMOUNT:

4. Compliance Requirements:

- If a county elects to receive the full payment amount, a minimum of 80% up to a maximum of 85% of the county’s full payment must be designated by the county for distribution in the same manner in which the 25% payments are required to be expended. (**Note:** This portion of Forest Reserve moneys is referred to as “Title I” funds.) (**Note:** See Compliance Requirement No. 1 above) If the total distribution of Forest Reserve funds to a county is less than \$100,000, the county may elect to expend the entire amount in this manner. (PL 106-393, Section 102(d))
- With the exception of a county receiving less than \$100,000, the county must elect, on an annual basis (by September 30 of each year), one of the following options for the remaining 15% to 20% balance:

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III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

COUNTIES ELECTING TO RECEIVE THE FULL PAYMENT AMOUNT - continued:

4. Compliance Requirements - continued:

- a. Reserve the balance for projects in accordance with Title II of the Act (These funds are deposited in a special account in the US Treasury and are available for expenditure without further appropriation.)
- b. Reserve the balance for projects in accordance with Title III of the Act. (These funds are reserved by the county.)
- c. Reserve the balance for projects in accordance with both Title II and Title III of the Act, or
- d. Return the balance to the US Treasury.

(Note: If the county fails to make an election by September 30 of each year, the county is deemed to have elected to expend 85% in the same manner as the 25% payments, and will remit the balance to the U.S. Treasury.)
(PL 106-393, Section 102(d))

Suggested Audit Procedures:

- For the 80% to 85% portion of the full payment amount, see the suggested audit procedures under Compliance Requirements Nos. 1 through 3, above.
- Review the county's records to determine what election the county has made to expend the remaining 15% to 20% of its annual Forest Reserve funds and Public Law 106-393 funds. The following compliance requirements and suggested audit procedures address the options under Title II projects and Title III projects as referred to above.

TITLE II PROJECTS:

5. Compliance Requirements:

- A county must submit its Title II project proposals to a resource advisory committee (RAC). The RAC reviews the proposed projects and submits approved projects to the Secretary of Agriculture. The Secretary, in turn, approves or rejects projects. The RAC is composed of 15 individuals representative of three community interest categories as specified in Section 205 of Public Law 106-393. A project may only be proposed to the Secretary of Agriculture if it has been approved by a majority of members from each of the three categories. All meetings of the RAC must be announced at least one week in advance in a local newspaper of record and must be open to the public. Records of the RAC meetings must be made available for public inspection. (PL 106-393, Section 205)

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III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

COUNTIES ELECTING TO RECEIVE THE FULL PAYMENT AMOUNT - continued:

TITLE II PROJECTS - continued:

5. Compliance Requirements - continued:

- Title II project monies may be used solely for the purpose of entering into and implementing cooperative agreements with willing Federal agencies, State and local governments, private and nonprofit entities, and landowners for protection, restoration and enhancement of fish and wildlife habitat, and other resource objectives consistent with the purposes of the Act on Federal lands and on non-Federal lands where projects would benefit these resources on Federal land. Types of allowable projects include:
 - a. Road maintenance and decommissioning;
 - b. Stream and watershed restoration (At least 50% of funds service wide must go for #a and #b);
 - c. Maintaining infrastructure, including trails;
 - d. Forest ecosystem stewardship;
 - e. Land health and water quality;
 - f. Control of noxious or exotic weeds;
 - g. Other projects consistent with the Forest Plan, including fish and wildlife habitat and restoring native species.

(PL 106-393, Sections 204(a) & 202, and Flowchart on U.S. Department of Agriculture website: www.fs.fed.us/payments)

(Note: Project funds may also be used to pay for an environmental review, consultation, or compliance with applicable environmental laws required in connection with the project. - PL 106-393, Section 204(b))
- The following are also considered to be allowable costs for Title II monies:
 - a. Monitoring of projects – Monitoring is a required component of project proposals (See PL 106-393, Section 203(b)(6))
 - b. Costs of pilot projects involving the sale of merchantable material (See PL 106-393, Section 204(e)(3))
 - c. RAC expenses such as travel & per diem, meeting rooms, and facilitators (Q & A for PL 106-393 on U.S. Department of Agriculture website – See address above.)

Suggested Audit Procedures:

- On a sample basis, verify that meetings of the Resource Advisory Committee were open to the public, and that public notice of the meetings was made at least one week in advance.

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III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

COUNTIES ELECTING TO RECEIVE THE FULL PAYMENT AMOUNT - continued:

TITLE II PROJECTS - continued:

Suggested Audit Procedures - continued:

- Obtain the minutes of the RAC meetings, and review to ensure that any projects recommended to the Secretary of Agriculture were first approved by a majority of members from each of the three community interest categories.
- Verify that Title II monies were expended for only those allowable purposes discussed above.

TITLE III PROJECTS:

6. Compliance Requirements:

- Title III projects may be approved by a county only following a 45-day public comment period. Prior to the public comment period, the county must publish a description of the proposed project in the publications of local record, and must send the proposed project to the RAC, if one exists for the county. If the county allocates a portion of its Forest Reserve moneys to Title III projects only, a RAC is not required to be established. If, however, a RAC is established for a Title II project allocation, a Title III project proposed by the same county must be sent to the RAC. There is no requirement that the RAC approve the county's Title III proposal. (PL 106-393, Section 302(a))
- Title III project monies may be used only for:
 - a. Search, rescue and emergency services – An eligible county or applicable sheriff's department may use these funds as reimbursement for search and rescue and other emergency services, including fire fighting, performed on Federal lands and paid for by the county. (**Note:** In the case of an expenditure that is necessary for search and rescue activities on both county and Federal lands, Title III funds may be expended in proportion to the relative use of the expenditure on Federal land. (Q & A for PL 106-393 on U.S. Department of Agriculture website – See website address above.))
 - b. Community service work camps – An eligible county may use these funds as reimbursement for all or part of the costs incurred by the county to pay the salaries and benefits of county employees who supervise adults or juveniles performing mandatory community service on Federal lands

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COUNTIES ELECTING TO RECEIVE THE FULL PAYMENT AMOUNT - continued:

TITLE III PROJECTS - continued:

6. Compliance Requirements - continued:

- c. Easement purchases – An eligible county may use these funds to acquire easements, on a willing seller basis, to provide for nonmotorized access to public lands for hunting, fishing, and other recreational purposes; conservation easements; or both.
 - d. Forest-related educational opportunities – A county may use these funds to establish and conduct forest-related after school programs.
 - e. Fire prevention and county planning – A county may use these funds for efforts to educate homeowners in fire-sensitive ecosystems about the consequences of wildfires and techniques in home siting, home construction, and home landscaping that can increase the protection of people and property from wildfires; and planning efforts to reduce or mitigate the impact of development on adjacent Federal lands and to increase the protection of people and property from wildfires.
 - f. Community forestry – A county may use these funds towards non-Federal cost-share requirements of section 9 of the Cooperative Forestry Assistance Act of 1978 (16 U.S.C. 2105)
(PL 106-393, Section 302(b) and Flowchart on U.S. Department of Agriculture – See website address above.)
- A county may also use Title III monies for the non-federal component of a federal matching grant, as long as the purpose of the federal matching grant is consistent with one of the authorized uses of funds under Title III. (Q & A for PL 106-393 on U.S. Department of Agriculture website – See website address above.)

Suggested Audit Procedures:

- Verify that the county provided for a 45-day public comment period before approving a Title III project, and that the county published a description of the proposed project in the local newspapers.
- If a Review Advisory Committee (RAC) was established for the county, verify that the county commissioners sent a copy of the proposed project to the RAC.
- Verify that Title III monies were expended for only those purposes discussed above.